TAX REIMBURSEMENT AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE PERMANENT COURT OF ARBITRATION

This Agreement is made between the Government of the United States of America (hereinafter "United States") and the Permanent Court of Arbitration (hereinafter "PCA"), "the Parties."

It is the intent of the United States to assume sole responsibility pursuant to this Agreement for funding the reimbursement of taxes to staff members of PCA who are subject to United States tax law as United States citizens or permanent resident aliens;

It is the intent of PCA to place the reimbursement of United States income tax to its staff members on a sound basis; and

The Parties are desirous of concluding an agreement on reimbursement to PCA staff members of United States Federal, state, and local income tax and self-employment tax levied under United States law on the income they receive as compensation for official services rendered to PCA (hereinafter "institutional income");

THE PARTIES AGREE AS FOLLOWS:

1. PCA shall reimburse PCA staff members paid from the regular budget who are liable for and pay United States Federal self-employment tax and United States Federal, state, and local income taxes on their PCA institutional income, as defined in the Annex to this Agreement, the amount of those taxes, under the terms and conditions set forth below. This Agreement does not cover staff members paid from voluntary funds. An advance payment made by PCA relating to the estimated tax liability of a staff member during a current year will be treated as reimbursement, provided that such payment is effected by an instrument payable to the Internal Revenue Service or counterpart body of the taxing state or local government.

2. Subject to the availability of appropriated funds, the United States shall reimburse PCA for each taxpayer an amount not to exceed the tax that would be due if the specified categories of PCA income were the taxpayer's only income, taking into account any special tax benefits available to United States taxpayers employed abroad, as well as the deductions and personal exemptions otherwise allowed.

3. PCA shall inform the staff members who seek reimbursement of taxes under this Agreement that they are obligated to claim all deductions, exemptions, or exclusions to which they are entitled under applicable tax legislation and regulations.

4. For purposes of United States Federal income tax, deductions, exemptions, and adjustments to income shall be apportioned on a pro rata basis between taxable PCA institutional income and private income for the purposes of calculating tax reimbursement, except where deductions and exemptions relate to a specific category of income. "Taxable PCA institutional income" means the amount of PCA income subject to tax after the application of the foreign earned income exclusion.

5. Both parties shall take all possible measures to reduce or eliminate the burden resulting from the cumulative effect of tax reimbursements being treated as taxable income.

6. PCA staff members who seek reimbursement of taxes under this Agreement are themselves responsible for complying with any income tax

laws applicable to them. Penalties, interest, or other charges resulting from noncompliance with such laws shall not be reimbursed by PCA to PCA staff members and shall not be reimbursed by the United States to PCA.

7. PCA shall require each PCA staff member claiming tax reimbursement to determine the status defined by United States tax law under which that staff member files an income tax return, reimbursement being made on the basis of the status under which taxes are in fact being paid.

8. PCA shall maintain separate accounting of the tax reimbursements covered by this Agreement. PCA shall require each staff member receiving tax reimbursement to authorize PCA to obtain confirmation from the United States Internal Revenue Service and state and local government counterpart bodies, as appropriate, of the tax liability of that staff member and the payment of the tax due. PCA shall require each staff member to provide it with all the materials necessary to verify that the amounts claimed under this Agreement from PCA are the same as the tax liability the staff member reports and the tax payments the staff member in fact makes.

9. Checks by PCA for payment of estimated taxes shall be made payable to the Internal Revenue Service, or counterpart body of the taxing state or local government, and checks for reimbursement of taxes already paid by a staff member shall be made payable to the staff member concerned.

10. Reimbursement of the United States Federal self-employment taxes shall equal the difference between the amount the staff member pays as a result of the staff member's classification as a self-employed person, less any applicable tax credit arising from the same qualification, and the amount the staff member would have to pay in social security (Old Age, Survivors and Disability Insurance) taxes and health insurance (Medicare) taxes were the staff member classified as an employee.

11. The principles embodied in the present Agreement on reimbursement of Federal taxes equally constitute the basis for the reimbursement of state and local taxes.

12. The United States shall reimburse PCA on the basis of a certification that reimbursements have been made by PCA to United States citizens, or others who are liable to pay United States income taxes. The certification shall set forth the names and United States social security numbers of the

PCA staff members reimbursed, the total of PCA income against which the United States tax has been paid (that is, institutional income as defined in the Annex), the amounts reimbursed to PCA staff members, the tax year for which reimbursement is made, the year in which reimbursement is made for each category of tax specified in Article 1, and affirm that their salaries and benefits are paid from the regular budget as required by Article 1. This information shall be provided yearly to the United States by October 1 following the tax year for which the claim is made. Without prejudice to the foregoing, PCA shall file all tax reimbursement claims for a particular tax year, no later than 24 months from October 1 following the tax year for which the claim is made.

13. The United States shall reimburse PCA at the earliest possible date following receipt of the certification specified in Article 12 a sum sufficient to cover all tax reimbursements paid by PCA with respect to preceding tax years, in accordance with this Agreement.

14. Subject to the availability of funds, the United States and PCA may agree to a reimbursement for such reasonable and necessary expenses as PCA may incur in connection with the implementation of the administrative procedures required to carry out the provisions of this Agreement.

15. This Agreement shall apply with regard to tax reimbursements for institutional income earned on or after January 1, 2006.

16. This Agreement shall enter into force upon signature by the Parties and may thereafter be terminated by either Party on December 31 of the year following the year in which notice is given in writing to the other Party.

17. Should the United States conclude a tax reimbursement agreement with any other international organization substantially more favorable to that organization or its staff members than the present Agreement, the latter shall be modified to extend to PCA the benefit of the former, subject to the agreement of the United States, which shall not unreasonably be refused.

18. Any difficulties arising from the implementation of this Agreement shall be resolved by consultations between the Parties.

Done at The Hague, in duplicate, in the English language this 26th day of June 2007.

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA:

Roland E. Arnall
Ambassador
U.S. Embassy The Netherlands

FOR THE PERMANENT COURT OF ARBITRATION:

Tjaco van den Hout
Secretary General
Permanent Court of Arbitration

ANNEX

Particulars of Institutional Income

"Institutional income," as used in this Tax Reimbursement Agreement, includes only the following particulars of compensation:

- Basic salary
- Salary increments
- Overtime
- Reimbursement of United States Federal, state, or local income tax payments and United States self-employment tax payments on institutional income.

Should PCA approve the addition, modification, or deletion of any elements of institutional income, this Annex may be modified by an exchange of letters, subject to the agreement of the United States, which shall not be unreasonably refused.